December 1980

Chain Store Age EXECUTIVE

with Shopping Center Age

The newsmagazine for retail operation

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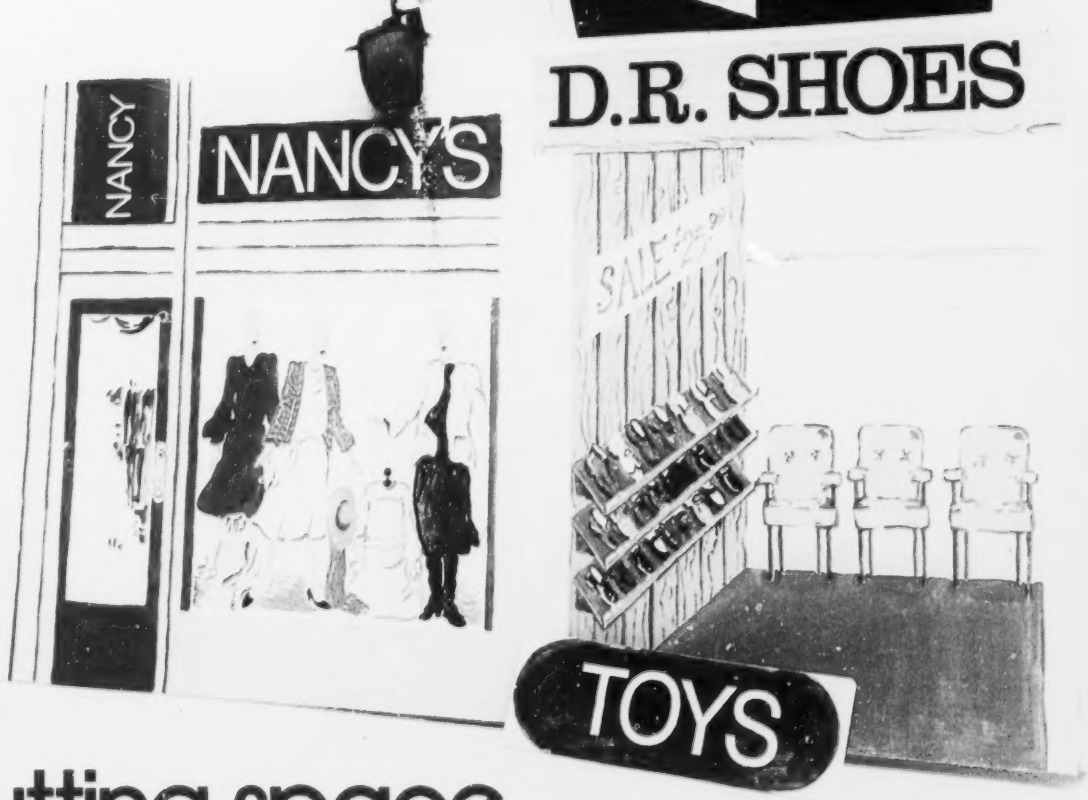
The Annual Census of U.S. Shopping Centers



Cutting space, increasing productivity

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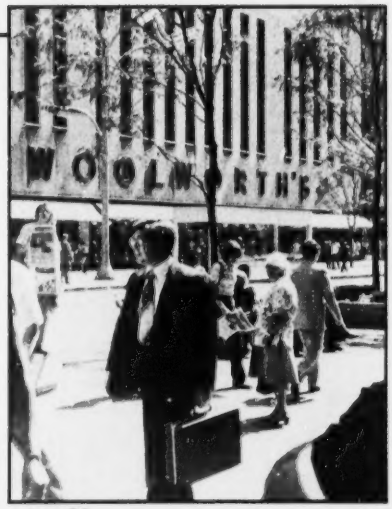

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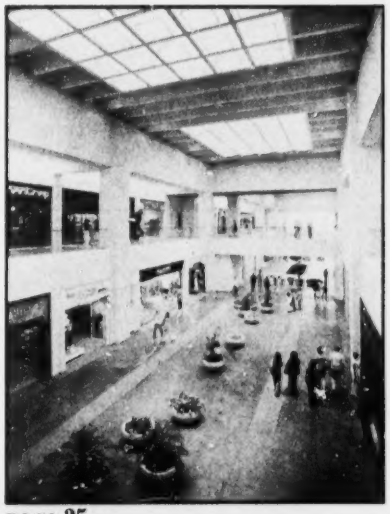
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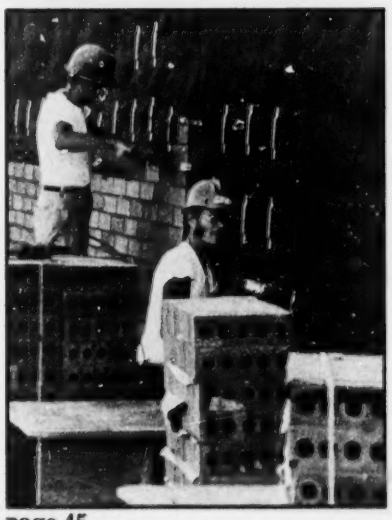
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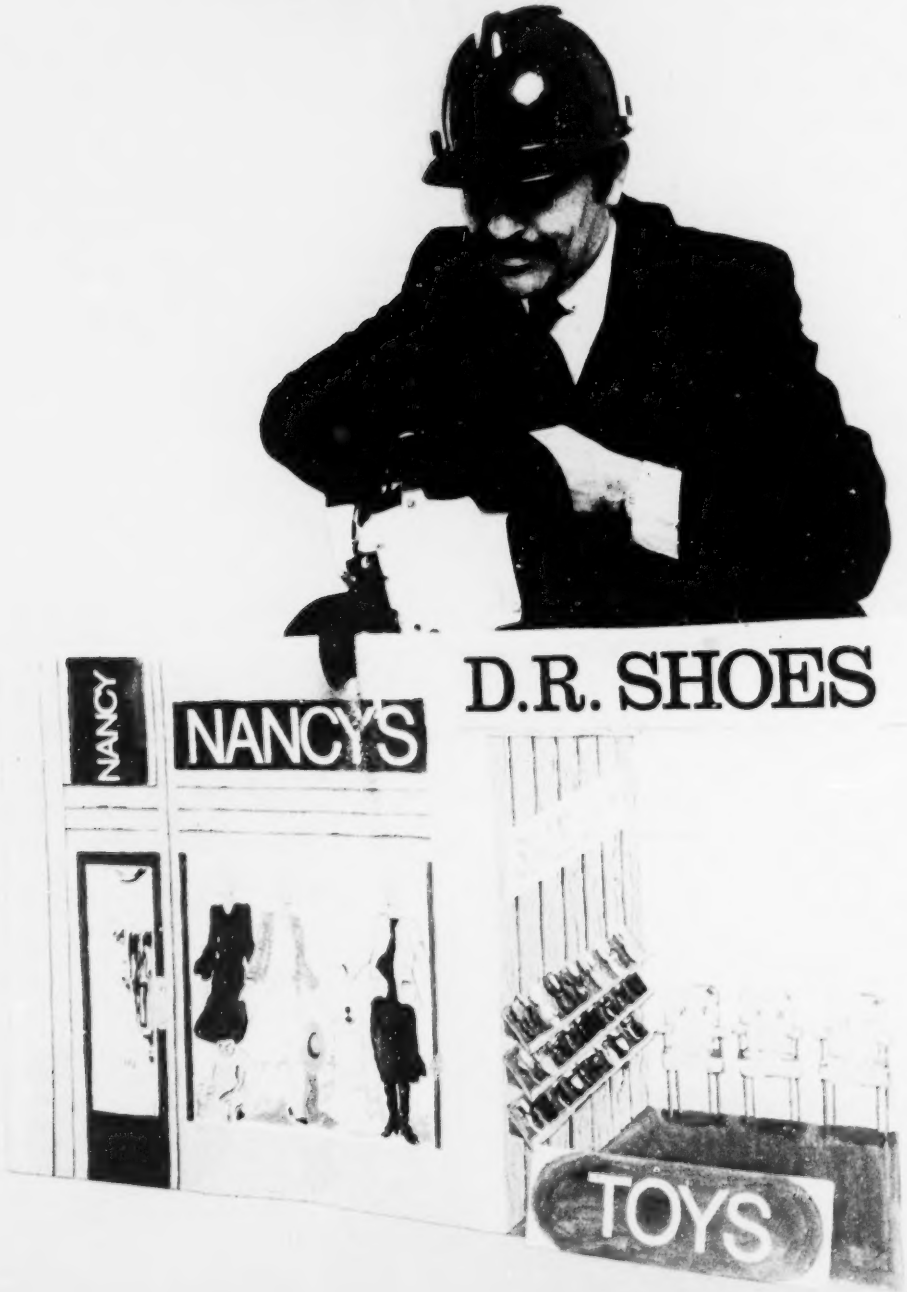

Cutting space, increasing productivity

Special problems call for special solutions, and the *1980 Census of U.S. Shopping Centers* details some of the approaches developers, owners and managers are taking in the areas of tenant leasing, ongoing operations, and development and construction. There is also a special feature on the latest trends in demographics and psychographics.

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Conflicting signals about urban sites

With all the demographic and financial changes taking place in the United States today, retailers are finding decision-making about site selections increasingly difficult. Some factors complicating their choices:

- Retailers who have written off the downtown areas of major cities as nonproductive are seeing a surge of construction and a growth of new jobs there.
- The Department of Housing and Urban Development is still campaigning hard to rebuild the center cities and to put the suburban shopping center drive into neutral.
- The high cost of money has changed the terms of financial agreements between major lenders and shopping center developers, slowing up new starts and forcing retailers to take another look at existing stores and existing shopping centers.
- Still other retailers are re-evaluating their plans to rush into the Sunbelt after they studied the effects of the long drought and high temperatures this past summer on business.

For a number of reasons, including the energy crisis, retailers are seeing an increase of business in their downtown stores after almost a decade of watching it slip away to suburban malls. Construction is booming in Washington, D.C.; office, apartment and hotel buildings are rising along Madison, Lexington, Fifth, Third and Second Avenues in Manhattan; the Federal Government and retailers have joined forces to spend about $100 million in revitalizing State Street in Chicago (*Chain Store Age Executive*, November 1980); a shopping center with major tenants recently opened in downtown Pasadena, and central St. Paul, Minn., has the shiny look of a new city.

In New York's Herald Square, a once-dormant Macy's is benefiting from a complete overhaul that has boosted the parent company's sales and profits. Baltimore's Harborplace waterfront development of shops and cafes has revitalized that city, and the Gallery in downtown Philadelphia has fared so well that another section is being contemplated.

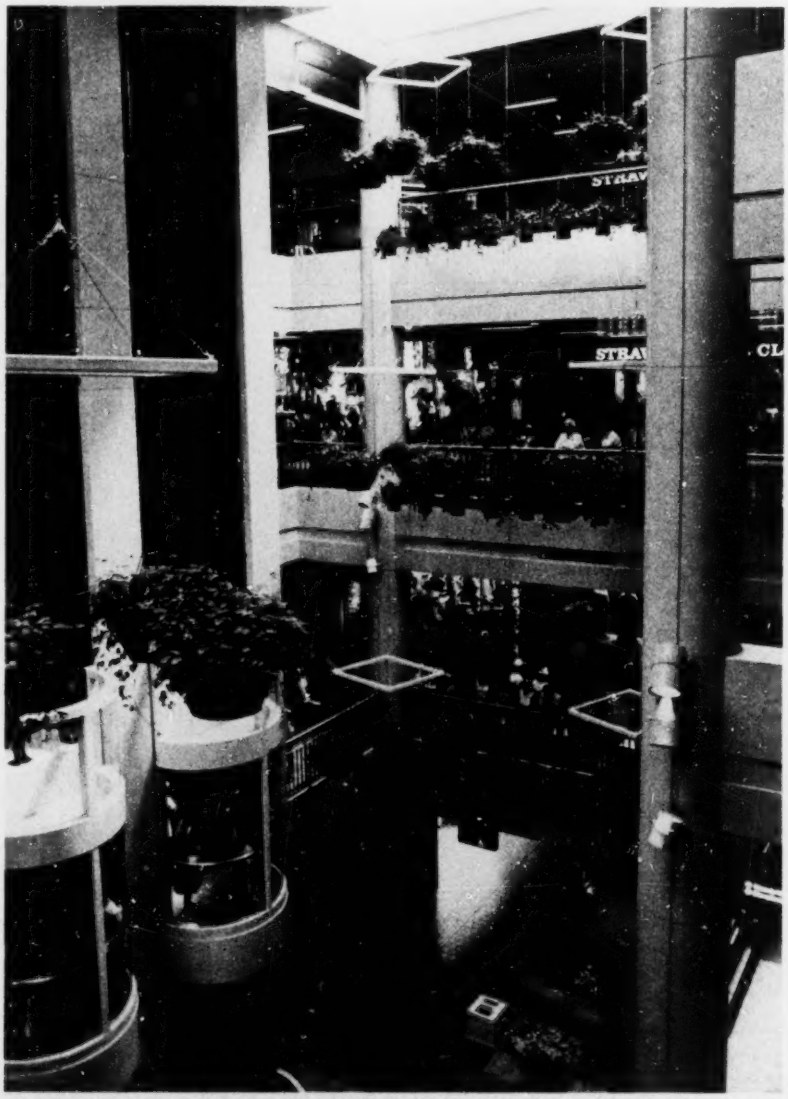
The high cost of money has slowed construction, reducing the number of shopping center startups. In recent years, says Jerome F. Lipp, president of Carter Hawley Hale Properties, "We've had a lot of fill-ins. If the developers can't help us [with new malls], we'll go where there is [existing] room." CHH Properties, a subsidiary of the retail chain of the same name, also is spending a substantial amount of money on renovating existing stores, Lipp says.

Still another element in shopping center development is the decline of long-term, fixed-rate loans by the banks, insurance companies and pension funds. Now the lenders want shorter terms, usually about five years, with kicker clauses for the rates as they rise.

Only a few years ago, developers would borrow more than they needed to build a shopping center at a fixed rate of about 2% per annum for about 20 years. (In October, the rate was between 13% and 14%.)

Also, most insurance companies want partial or total equity in the shopping centers that they're financing or refinancing in order to benefit from the soaring rate of inflation, whether it be for a new mall or rehabilitation of an existing one.

Other sources of financing may be drying up. Industrial bonds, used



Business has been so healthy at Philadelphia's Gallery that developers are considering adding another section to it.

A statistical look at the markets

Rank	Market (by population)	Total Dept. Store Sales[1] (000,000)	% change Aug. 1979 to Aug. 1980
1.	New York	$2,783	+ 6%
2.	Los Angeles/Long Beach	3,955	+ 8
3.	Chicago	3,357	0
4.	Philadelphia	1,847	0
5.	Detroit	2,119	− 2
6.	Greater Boston	1,221	+ 6
7.	San Francisco/Oakland	1,764	+11
8.	Washington, D.C.	1,647	+ 7
9.	Nassau/Suffolk, N.Y.	N.A.	—
10.	Dallas/Fort Worth	1,620	+ 7
11.	Houston	1,719	+12
12.	St. Louis	1,273	+ 7
13.	Pittsburgh	1,264	+ 3
14.	Baltimore	879	+ 3
15.	Minneapolis/St. Paul	1,388	+ 3
16.	Newark	594	+ 5
17.	Cleveland	1,043	− 2
18.	Atlanta	1,152	+ 6
19.	Orange County, Calif.	N.A.	—
20.	San Diego	1,134	+ 7
21.	Denver/Boulder	858	+ 3
22.	Miami	892	+10
23.	Seattle/Everett	805	+ 7
24.	Milwaukee	778	+ 1
25.	Tampa/St. Petersburg	783	+12
26.	Cincinnati	878	0
27.	Buffalo	594	− 2
28.	Riverside/San Bernardino	746	+ 9
29.	Kansas City	739	− 1
30.	Phoenix	764	+ 4
31.	San Jose	808	+ 9
32.	Indianapolis	666	+ 1
33.	New Orleans	557	+ 9
34.	Portland, Ore.	593	+15
35.	Columbus, Ohio	647	+ 1
36.	Hartford	357	+ 1
37.	San Antonio	514	+ 4
38.	Rochester	386	0
39.	Sacramento	528	+ 6
40.	Memphis	406	+11
41.	Louisville	482	+ 1
42.	Broward Co., Fla.	N.A.	—
43.	Providence	350	+ 3
44.	Dayton	485	− 5
45.	Salt Lake City	419	+19
46.	Bridgeport	173	+ 4
47.	Birmingham	292	− 1
48.	Norfolk	294	+ 9
49.	Albany	287	+ 7
50.	Toledo	407	+ 4

Source: U.S. Dept. of Commerce, most recent available figures.

[1]12-month total from September 1979 through August 1980.

N.A.—Not available

quite extensively by K mart to finance its expansion, have come under the scrutiny of the House Ways & Means Committee and may be changed. Last summer, a number of retailers rushed into the bond market to refinance their short-term debt and to provide funds for expansion. But in the fall, as interest rates soared, bonds fell out of favor

Associated Dry Goods has cut back on excess space through sale or subleasing, says vp O'Day.

when the Federal Reserve System tightened credit further, making borrowing even more costly. Corporate treasurers began deferring long-term financing plans as investors showed reluctance to hold long-term bonds.

H.U.D. continues to show interest in providing seed money for rebuilding downtown areas in order to help cities increase their tax bases. (Some developers claim that H.U.D. applies pressure even when Federal funds aren't involved.) At the same time, it has discouraged building shopping centers in the suburbs, much to the consternation of many shopping center developers and retailers.

Still another direct result of the increased cost of money is the reduced size of stores in both existing and new malls. From a developer's viewpoint, it's more profitable to divide an existing store into two and to have two companies paying rent instead of one. A well-established store usually finds it can do as much if not more volume in less space than it did in larger quarters and, thus, can increase productivity.

Real estate and merchandise departments sometimes disagree about reducing the size of a store. Merchandise executives say they need a certain amount of space to present their goods decently, says

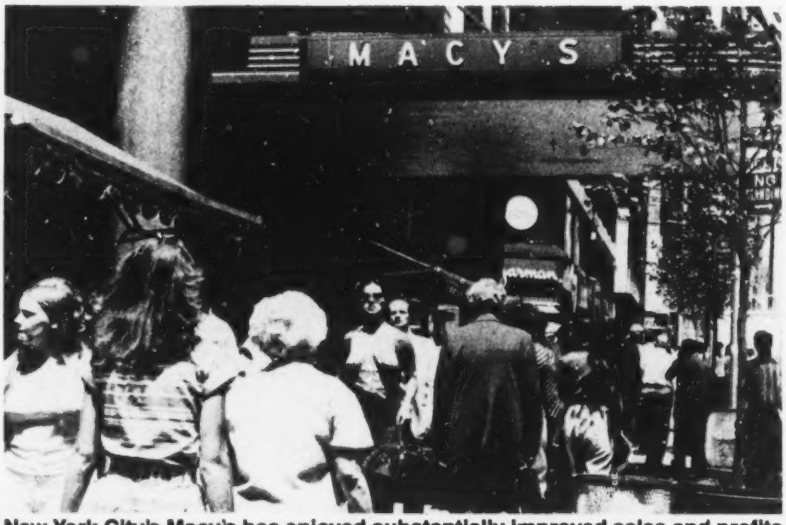
Bruce MacLeod, vp-real estate, Federated Department Stores, and formerly an executive with The Rouse Co.

In addition, says MacLeod, a chain can downsize a store too much. For instance, Federated built a 60,000-sq.-ft. Filene's in New Hampshire. It was so successful, however, that Federated is planning to expand the size of the store. Question: How small should it have been designed originally?

Retailers must also consider the effect on profits when they reduce the size of stores. In some cases, the excess space is used as administrative offices and brings in no additional income. But sometimes the excess space can produce substantial income.

Associated Dry Goods had 6 million sq. ft. of excess space and has been cutting back through the sale or subleasing of the space, says Arthur F. O'Day, vp-real estate. Two floors of the Sibley, Lindsay & Curr store in downtown Syracuse have been rented to Kemper Insurance Co., and two floors in its Rochester store have been rented to General Motors.

Woolco, a division of the F. W. Woolworth Co., has carved out spaces in many of its stores and subrented to J. Brannam, another Woolworth division that sells off-priced branded apparel.



New York City's Macy's has enjoyed substantially improved sales and profits since it was completely remodeled.

Glenn C. Evans, of Woolworth/Woolco, says there were 27 J. Brannam stores in October, and that this number should hit 40 by this coming spring and 55 a bit later. "We've run out of Woolco stores" to house J. Brannams, he says.

Increased costs are also having an adverse effect on chain expansions. Because it's becoming too expensive to transship goods from city to city, there will be less expansion of smaller chains outside of one city, says Kenneth H. Hughes, executive vp, Henry S. Miller Co., Dallas, a company that concentrates on middle- and smaller-sized shopping centers. Therefore, he adds, small chains will tend to expand locally more often and to use smaller stores. ■

—Stanley H. Slom

Chicago's State Street mall exemplifies the trend of revitalized downtown business areas in many cities.

Creative approach crucial for good tenant mix

The hottest tenants around today, leasing experts agree, are the local merchants. Not only do they lend character to a mall, but their emphasis on customer service and their extensive selection of merchandise tend to produce sales that far exceed the national chains' volumes, as well.

However, a choked money market and steep interest rates are making it next to impossible for these small operators to set up shop in the shopping centers that so desire them. In response to these trends, developers are devising ingenious ways such as larger than normal construction allowances and loans for the mom-and-pops to remain active.

To be sure, special financial packages are nothing new to sought-after tenants. "The situation isn't different than in the past," says Harold Eisenberg, vp for Ken Tucker & Associates of Skokie, Ill. "It's just a little more prevalent today."

One approach is for the developer to subsidize the tenant's interest rate. "If a merchant has paid 12% for his money in the past and is paying 15% today, we would agree to compensate him for the difference in his percentage rent for a period of time," Eisenberg explains.

Others prefer different steps. "Rents aren't really the problem," argues Michael LaRue, vp-director of leasing for American Income Properties in Chicago. "The pressing problem today, because of the cost of capital, is the going-in cost," he adds. As a result, the developer is testing several concepts including additional construction allowances that are repaid in the form of increased percentage rents.

In these times of tough financing, "if you're really committed to maintaining good tenant mix in your center, you have to develop some creative approach to doing it," LaRue insists.

Local entrepreneurs run nearly all of the men's-wear shops in Northbrook Court, a Homart Development Co. center in Illinois. Formerly stationed along nearby Chicago's affluent North Michigan Avenue, only the strongest retailers that were well-known throughout the market were lured away to Homart's mall. With lines that are decidedly upscale, appealing to an elite audience, these retailers today are escaping the recession unscathed. In fact, their sales are way ahead of the center as a whole, at an average of $200 per square foot, and in some cases running as high as $300, compared with Northbrook's overall volumes of $175-$180 per square foot.

Going-in costs, not rents, are the major problem, says one vp.

With such impressive results, it's no wonder these stores are given so much space—some 15%, or 56,200 sq. ft. of the 370,000-sq.-ft. GLA.

But other developers aren't as generous with men's shops. Problems in structuring deals is one frequently given reason why a large number of centers go for other uses. "The ratio of women's to men's is two-to-one probably," says Monty M. Daniels, director of leasing for Dallas's NorthPark Center, a 15-year-old project owned by Raymond D. Nasher Co. of Dallas, that is undergoing partial retenanting. "This year men's apparel [in malls] has been very, very slow. It just died," he adds. He believes most

To succeed in these financially unsettled times, developers must choose the right tenant combination.

Urban centers such as Chicago's Water Tower Place have profited by catering to tourists and conventioneers looking for gift shops.

men prefer to shop close to home, in establishments they've been patronizing for years.

More and more, the slack created by the men's-wear stores is being taken up by a whole new breed of tenant, namely, service operations. Geared to meeting social needs that leasing directors once ignored, traditional service outlets such as banks, tailors and shoe repairs are gaining new popularity in malls.

"Shopping centers have long been described as the new town centers, and yet they've only gone a very small portion of the way in fulfilling that role," explains American Income Properties' LaRue. "The kinds of uses that will enable people to really use them as one-stop general service facilities still need to be added," he notes. These service operations generally don't pay percentage rents, have base rents lower than other tenants and usually fall short of producing fantastic revenues for the developer. "They're just another mall amenity," says LaRue.

New amenities like medical centers and legal offices are also in demand. Developer Richard I. Rubin & Co., which is headquartered in Philadelphia, has begun leasing space at entrance mall locations to dental clinics. Occupying some 2,000 sq. ft., "they're doing supersensationally," claims Lewis M. Stone, the company's leasing director. Instead of a percentage, the

Tenant profiles of six types of shopping centers*

	Urban			Nonurban		
Category	Under 100,000 sq. ft. GLA	100,001-500,000 sq. ft. GLA	Over 500,000 sq. ft. GLA	Under 100,000 sq. ft. GLA	100,001-500,000 sq. ft. GLA	Over 500,000 sq. ft. GLA
Department stores	N.A.	16.20%	32.07%	1.52%	10.17%	32.85%
Gen'l merchandise	N.A.	18.18	22.89	N.A.	11.54	21.82
Discount store	5.62	10.65	0.91	9.21	10.06	1.51
Variety store	4.85	3.29	2.19	2.42	3.43	1.18
Catalog showroom	0.61	0.86	0.19	0.67	1.58	0.21
Supermarket	28.56	8.04	2.00	35.38	14.24	1.85
Drug store	11.89	3.61	1.64	8.96	5.07	1.49
Large specialty store	N.A.	2.29	1.21	0.48	0.99	1.28
Women's apparel	2.79	4.61	7.23	2.16	5.07	6.92
Men's apparel	3.48	2.06	2.33	1.04	1.59	2.93
Other apparel	1.73	1.95	1.57	2.20	2.08	1.98
Shoe	0.50	2.15	2.51	1.89	2.62	2.90
Jewelry	0.44	1.19	1.07	0.36	0.86	1.23
Card & gift	1.18	1.78	1.34	2.43	1.85	1.42
Service shops	5.86	5.14	1.83	10.15	4.64	1.44
Entertainment	3.16	1.95	1.91	0.88	2.46	1.93
Recreation	0.25	1.88	1.07	2.30	1.27	1.07
Fast food	2.16	1.38	1.63	2.50	1.40	1.15
Sit-down restaurant	4.24	3.27	2.29	4.64	3.17	2.42
All others	22.69	9.56	12.11	10.82	15.91	12.41

N.A.—Sample too small to be statistically significant.
*Expressed in terms of % of total GLA.
Source: Lebhar-Friedman Research

Taking the guesswork out of tenant selection

While shopping mall developers are feverishly working to concoct the right blend of stores, The Taubman Co. has hit upon a formula that takes the guesswork out of tenant selection. It's called a retail analysis department and is staffed by people with backgrounds in merchandising who are charged with assessing the pluses and minuses of potential tenants for the company's new centers.

"There may be 14 junior apparel retailers that want to come into the center," explains Adria Aronow, director of the program. "We would want a qualified report to define the strengths of each operation so that we can be as healthy in our tenant mix as possible."

The department does this by scouring other malls for merchants that are successfully meeting the needs of their customers. The criteria: merchandise assortment, category breakdown, representation of price lines, displays, store design and layout. Also included in the search are surveys where shoppers are asked to evaluate a store on all of those aspects, as well as the treatment they received and how the retailer stacks up against its competitors and comparable department store lines.

If it's an existing center that's being retenanted, the analysts would devote their time to studying what's already being offered in the complex and to polling consumers on what they feel is missing. Requested uses might include service operations like bakeries, drug stores and stationery stores, and merchants catering exclusively to petite women or large sizes. "As the department stores give up certain areas, the shoppers turn to specialty stores to provide those offerings," Aronow says. "That creates an opportunity for more small stores."

In addition to assessing potential tenants, the two-year-old analysis department functions as a consultant free of charge to merchants in any of Taubman's malls, covering the same areas as in the first division. The bulk of this work is geared toward assisting local merchants, "because many times those are the very types of tenants that cannot afford to go out and hire merchandising consultants that are very costly," Aronow says. "We're giving them access to a lot of information and resources that they might not get otherwise."

Projects may be limited to a single unit, or encompass several stores of the same chain, and often take as long as three or four months to complete. Sometimes the analysts continue to work with a retailer on an ongoing basis over a period of several years.

One example of such a continuous project is a women's apparel chain that had failed to identify its customer and was misrepresenting itself to the public. What's more, it was lacking certain necessary merchandise lines and price points. The result: "The customer would be frustrated and leave and go elsewhere to get that collection," Aronow states. But after incorporating many of her suggestions, which included things as specific as relocating an accessories department that, besides making changes in merchandise, was too accessible to shoplifters, the stores' sales jumped 10% the first year.

The most successful retailers have several things in common, Aronow claims. "They are the ones that seem to have a much more sophisticated approach to analyzing their own customer and servicing her needs. Also, they have a consistency in their merchandising philosophy; they're not one thing one day and another the next. But that doesn't mean that they're not flexible or don't adapt to new trends."

clinics pay a minimum rent that's increased every few years to compensate the developer for inflation. They participate in all mall advertising and promotions, and have the same 10-year lease terms as the other tenants to help amortize their leasehold improvements.

Similarly, amid retailers such as Macy's, Franklin Simon, Thom McAn and Lerner Shops in Westchester County, New York's mall in New Rochelle, is a 1,000-sq.-ft. laundromat. Complete with hanging plants, soft music and a decor that's calculated to fit in with the other tenants, the laundry center's 17 stainless steel washers are intended to stress convenience for shoppers.

An Eastern Airline ticket office in Regency Square Mall in Jacksonville, Fla., is also symbolic of the changes sweeping through the industry. Situated in a convenient spot within the six-anchor, 1.1 million-sq.-ft. center, the ticket office functions as a draw for both the airline and the mall, Regency Square officials say. Staffed by three part-time employees, the operation enables shoppers to phone in their orders to a central number and receive their tickets over a computer with 20 seconds. Besides the obvious convenience, this arrangement is intended to replace the long lines at traditional ticket offices.

Developers are snapping up specialized stores such as optical shops to bring in new groups of customers.

At the same time, many new concepts that aren't service-oriented

are entering the field. Chains as diverse as The Limited, Brooks Fashion Stores, Melville, Kinney Shoe and cataloger Service Merchandise are creating various types of divisions to bring them new groups of customers. Optical shops that cater to fashion trends in eyeglasses and video stores that are capable of producing volumes two and three times higher than apparel merchants are being snapped up by developers.

These highly specialized uses tend to focus more on lifestyles than income levels. "[They] go beyond demographics—numbers, raw income data and that sort of thing—and focus on lifestyle, which is very difficult to define in numbers," says American Income Properties' LaRue. Because of their streamlined approaches, these ultra-specialty stores need less room and they fit nicely into the smaller tenant spaces being created more and more by subdivisions.

What's more, they're easy businesses to start up, and are giving rise to a spate of highly individualized merchants. "A guy called me this morning who wants to put in a store selling just Snoopy stuff," comments Rubin & Co.'s Stone.

Many of these tenants, developers say, are better geared to urban centers where the traffic tends to be heavier and more diverse. "In a suburban situation it's more serious day-in and day-out shopping, as opposed to tourist and conventioneer shopping where people are in a festive mood," comments James B. Klutznick, executive vp in charge of leasing for UIDC Management Inc., the properties management arm of Chicago's Urban Investment & Development Co. "They buy things they ordinarily wouldn't buy in their own suburban centers back home," he adds. Gourmet cookware and unique gift shops selling things like crystal or dolls work especially well in the company's seven Chicago-based malls.

There is emphasis now on making malls the new town centers and one-stop shopping areas.

In some cases, developers are leasing to tenants who don't pull in traffic or produce high volumes. These are the consumer research companies that are typically charged a small base rent, but which more than pay for themselves by providing the developer with ongoing data at prearranged intervals. "They help us determine who our customers are, where they're coming from, shopping habits, research into lifestyles, and likes and dislikes," says Ken Tucker's Eisenberg, who adds, "We do the demographic work ourselves." ■

—Lynne Bershad Mignoli

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Fewer frills, less space to reduce costs

Overall development costs—for land and the so-called "hard" and "soft" expenses—are up about 12% to 16% over last year, builders and retailers agree.

Meanwhile, developers disagree over how best to hold down their budgets and yet still still meet minimum objectives: maintaining aesthetic standards, improving energy efficiency and complying with increasingly stringent government regulations.

In addition, the scarcity of acceptable locations for new projects only makes the inflationary squeeze that much tighter. Laments one observer, John W. Hechinger Jr. of the Hechinger Co., "It is becoming more and more difficult to find commercial land. And those properties that are available either have government approval or site [improvement] problems."

To survive in this more competitive and cost-conscious market, builders and retailers are experimenting with a variety of measures, including:

- Downsizing in every aspect of a mall's design, from smaller GLA's for majors and tenants to narrower common areas and limited center courts.
- Increasing the ratio of selling to nonselling space by eliminating unproductive departments such as furniture, or further reducing service areas and office space.
- Adopting a "less frills" approach to fixturing and construction, with simpler exteriors, fewer skylights and waterfalls and less expensive building materials wherever possible.

As noted, expenses for all phases of development—from off-site work to on-site work and actual construction—are up dramatically, with certain hard and soft costs leading the way.

Many builders now favor smaller spaces for majors and tenants

(Hard costs are incurred for such expenses as material, labor and equipment, whereas soft costs include professional fees, financing charges and the costs of marketing studies or regulatory delays. Land is generally treated as a separate and more variable item.)

For example, increases in hard costs are now paced by parking lot asphalt, a petrochemical-based substance that has been rising at about 2% per month. Developers also cite vertical transportation such as elevators and escalators, along with skylights and high-grade construction materials, as other problem areas.

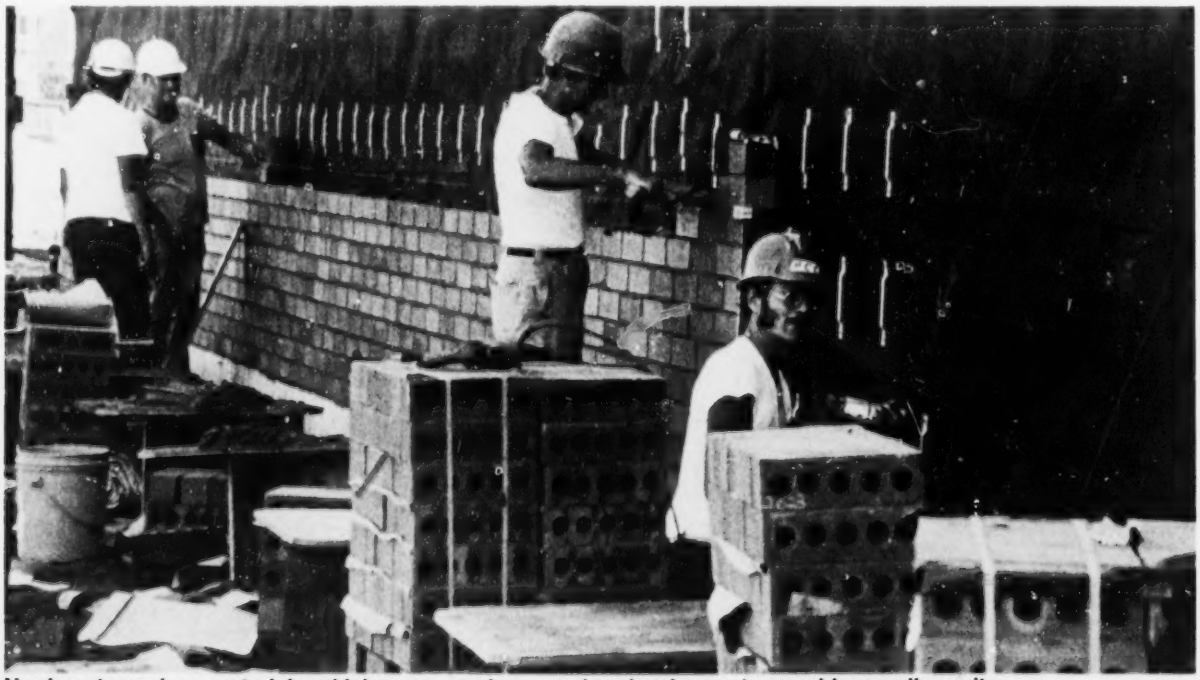
As for soft costs, high interest rates on both construction and long-term loans have been getting all the publicity. However, legal and architectural fees are also skyrocketing, and stiffer government regulations likewise contribute to the ever-higher overhead.

Also, the proliferation of guidelines—*e.g.* requirements for retention ponds or erosion control—means "you have to pay for things you never thought you'd have to pay for," one builder says, adding:

"I think regulations are getting to be more of a problem. Some of them are legitimate and some aren't, but it always means delays and higher costs for us."

While acknowledging that little can be done to prevent regulatory delays or hold down "uncontrollable" costs like land or asphalt, developers are nevertheless looking for other ways to stretch their capital dollars.

One such approach, of course, is downsizing—with many builders now favoring smaller spaces for ma-



Hard costs such as material and labor are soaring, causing developers to consider smaller units.

jors and tenants, along with reduced common areas and more modest center courts.

Ernest Hahn has been analyzing its traditional space allocation and finding that "overall widths can be reduced," reports John Gilchrist, Hahn's senior vp for development. He adds that centers can be planned on "a more human scale, instead of those large monolithic structures" that were built in the past.

Or, as one department store planner puts it, "We may have seen the last of of the big dinosaurs. Those large centers costs lots to build and they are expensive to maintain too. They are building smaller centers just like we are building smaller stores."

More specifically, Homart's Frank Comber reports that common area widths have been reduced as much as 25% and that some tenant spaces are down from 4,000 sq. ft. to 2,500 sq. ft. In addition, frontage space for tenants may be 6% to 7% smaller and center courts have been reduced too, says Comber, Homart's director of design and construction.

Finally, downsizing can generate capital—as well as operational—savings without sacrificing aesthetic standards. By reducing a

CBL & Associates' Charles Lebovitz: Downsizing can mean savings without sacrificing quality.

mall's width, for example, a developer realizes a corresponding reduction in steel, brick and other materials expenses, says Charles B. Lebovitz, president and ceo of the Tennessee-based CBL & Associates Inc.

"We have also measured the impact of the smaller mall on customers," Lebovitz continues, "and we've had nothing but compliments so far. We are saving money without cutting back on quality."

Just as many malls and shopping centers have been downsizing, so an increasing number of smaller, even single-level department stores are now being built.

Moreover, department store planners are utilizing other methods to improve productivity, maintain aesthetics and still hold the line on costs. At Associated Dry Goods, for instance, architects have increased the ratio of selling to nonselling space to 90%, and also sharply reduced the overall size of their new stores.

According to Arthur F. O'Day, ADG's vp for real estate, Lord & Taylor units averaged 148,000 sq. ft. in the early 70's, while comparable stores in the 80's will house but 104,000 sq. ft. Furthermore, the company is dropping out of departments where the return on investment doesn't justify the upfront costs of materials or installation.

Observes O'Day: "Construction costs are so high that you can't really afford to have furniture departments. We are also eliminating our food facilities," another department where installation expenses are high, he adds.

Finally, ADG and others are considering more one-level stores, a move designed to save on such ver-

Expenses of current projects

	Urban			Nonurban		
Category	Under 100,000 sq. ft. GLA	100,001-500,000 sq. ft. GLA	Over 500,000 sq. ft. GLA	Under 100,000 sq. ft. GLA	100,001-500,000 sq. ft. GLA	Over 500,000 sq. ft. GLA
Predevelopment costs	$3.80	$1.40	$ 4.00	$0.68	$ 3.58	$ 1.00
Offsite allowances	1.00	0.95	2.00	0.18	0.87	2.00
Shell/frame	5.50	6.10	15.00	8.33	11.93	13.50
Plumbing	1.27	1.70	3.00	1.30	3.43	2.50
Flooring/floor covering	1.13	1.50	1.00	1.07	0.85	2.30
Ceiling	N.A.	0.60	0.98	0.68	0.85	1.00
Roofing & skylights	N.A.	1.60	1.82	1.43	1.80	2.01
Electrical & lighting	1.75	2.20	2.51	2.57	2.90	2.50
Parking lot lighting	0.20	0.20	1.03	0.50	0.70	1.10
Signs & graphics	0.28	0.33	0.21	0.43	0.47	0.20
Elevators/escalators	N.A.	1.10	1.43	N.A.	N.A.	0.99
Interior wall covering	0.89	0.80	0.67	0.68	1.25	1.01
Exterior wall	N.A.	1.50	2.89	3.60	4.70	3.50
HVAC equipment	2.50	2.00	2.26	2.84	3.18	3.00
Fire detection/security systems and hardware	0.95	1.10	1.55	0.90	0.06	1.30

N.A.—Sample too small to be statistically significant.
*Expressed in terms of expenditures per sq. ft. GLA.
Source: Lebhar-Friedman Research

tical costs as elevators, escalators, stairs and handrails.

The elimination of those items can mean big savings, observes Frank E. Wilson, Allied Stores' vp for construction and store planning. Wilson also says that his company is building smaller stores.

Meanwhile, mall developers like Homart have also been joining in the single-level movement, although not all builders have been so quick to follow. An exception to the shift away from multilevel centers is the downtown mall, where high land costs dictate that a project must go up rather than out.

Says one consultant: "On a 120,000 sq. ft. to 750,000 sq. ft. development, land costs exceed the vertical savings. No one is talking about going from three stories to four, but the multilevel mall does make sense downtown."

But whether companies opt to build single-level or high-rise structures, planners must still grapple with the escalating costs of fixturing and construction materials.

Fortunately, though, there is some leeway in trying to control this expense, whereas items like interest rates, labor and land are more closely a function of supply and demand.

For one thing, developers can eliminate or reduce costly extras, a "fewer frills" approach that may extend from skylights and waterfalls to landscaping, upscale signage and curbed islands. Or alternately, less expensive materials can be substituted for high-end ones: for example, dry wall and stucco instead of wood, stone or brick, and concrete parking areas over the traditional asphalt ones.

Still another solution is to retain these aesthetic touches while cutting down on back-of-the-house expenses. This latter approach is favored by one builder who says: "We aren't skimping on skylights or other amenities, but we are looking to the structural systems. They have a much greater bearing on costs and the public never sees them."

While developers and store planners can try to offset increases in hard costs, as well as contain expenses for soft costs and land, it's a race in which they're doing well just to keep up, they admit. As developer Hechinger puts it:

"All construction costs are extremely high now and any developer has to be looking at unnecessary items. We design a reasonably simple facility and we try to be sure our buildings are energy efficient. But it's hard to do more than that."

One architect was even more concise. "There's not really much we can do, other than try to hold down on fancy materials. We just have to bite the bullet, I guess." ■

—Craig Carter

The mountain comes to the mall

Sometimes, the shopping center comes to the mountain—and sometimes, the mountain comes to the shopping center. Or so it seems.

The shopping center in question is the Chicago Ridge Mall, a 900,000-sq.-ft. enclosed regional mall that is now being built by Ken Tucker & Associates, the Skokie, Ill.-based developer.

And the "mountain?" Well, that's the 300,000 cubic yards of dirt that had to be moved so that actual construction on the mall could get under way.

According to Ken Tucker, the firm's chairman, this massive land balancing act was undertaken to:

- Provide grading for the mall's parking areas;
- Build up the so-called pads on which the buildings are being erected;
- Excavate basins for the mall's two retention ponds.

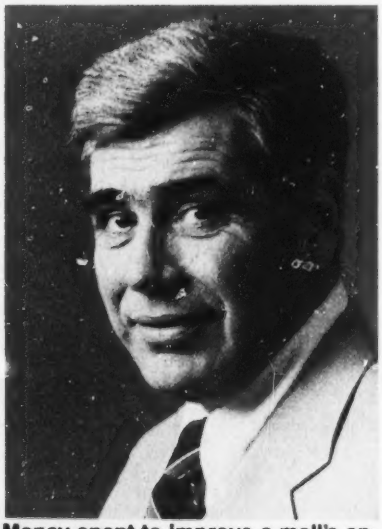
The earth-moving project, a prelude to the two-phase development of the mall's 73-acre site, began in the fall of 1979. That work was halted by inclement weather—including snow, wind and rain—and then largely completed last summer.

All and all, 24 men were involved in the grading, using equipment ranging from rollers and scrapers to compactors and backholers.

Chicago Ridge Mall's first phase of development, to open next fall, will be anchored by a 200,000-sq.-ft. Sears unit, while two department stores are scheduled as anchors for the second phase. The center will eventually house more than 130 tenant shops, a three-screen theater, office space and a farmer's market.

Heavy equipment moved more than 300,000 cubic yards of dirt to prepare Chicago Ridge Mall's site.

More than just maintenance or promotion costs now



Money spent to improve a mall's appearance is an investment, says Dick Guidera of Center Cos.

A national consulting firm that audits shopping center tenants in more than 300 U.S. malls recently found that 1,110 center tenants—44% of the 2,500 retailers it examined—had underreported their sales to the tune of $34 million. Approximately $1,356,000 of that sum was comprised of unpaid tenant fees.

The tenant audit is one of many approaches being taken by such companies as Leonard L. Farber Inc., Hahn Property Management Corp., and The Rouse Co. to boost the sales of their malls' retailers as new center construction slows and the onus to increase productivity shifts to existing malls.

"Operations can't be viewed solely as maintenance or promotions costs anymore," says Dick Guidera, senior vp-operations, The Center Cos., formerly Dayton Hudson Properties. "We have to find ways to boost tenants' cash [rent] flows."

According to R. G. Foster, founder of R. G. Foster Associates, the Gretna, La.-based company that uncovered the $34 million worth of unreported shopping center tenants' revenues, 42%-44% of a mall's retailers typically underreport their sales. The first time a Foster examiner audits mall tenants he schedules about 60 examinations. If the same center is audited a year later, the examiner will usually recheck 42% of those 60 stores or about 24 tenants.

The audit procedure, which costs $350 per exam plus a pro rata travel charge, consists of four basic steps:

- The mall owner sends tenants' rent schedules and lease agreements to Foster Associates for preaudit study.
- The mall owner decides if he's going to act solely on the basis of Foster Associates' findings or whether he'll supplement that audit with his own study.
- Foster staffers "shop" the mall stores and note such data as how many registers the tenants have and whether or not their clerks are ringing up all their sales transactions.
- Appointments are made to audit tenants' books.

Foster says local retailers usually underreport their revenues by manipulating sales figures, while regional and national chains "don't fool with sales figures but interpret the terms of their leases to their advantages.

"When the economy tightens, the tendency to underreport sales increases," he says. "The retailer's attitude is: 'Why should I pay a percentage of my sales to a mall owner on an item I've hardly profited on myself?' "

Most tenants don't expect to get away with their sales evasions—they simply view the acts as ways to secure interest-free loans, which they'll pay back if and when they're caught.

Foster Associates is the only nationwide mall tenant audit service and while CPA's will conduct the audits too, they generally charge $800-$1,000 per exam, significantly more than the Louisiana company's $350 rate.

Foster claims his method is far less expensive to mall owners than an in-house audit would be, and while he audits the tenants in all of Hahn's, Rouse's and other major developers' malls, he says Edward J. DeBartolo Corp. still prefers to do its own audits. "It costs DeBartolo three times more per exam than what we charge," says Foster. "Of course he's a multimillionaire. But most mall owners get to the point where they'd rather farm out such

More than 40% of a mall's retailers underreport their sales, according to R. G. Foster, founder of Foster Associates (shown here with vp Clair Foster).

Rosedale shopping center, Roseville, Minn., has been "remerchandised," creating greater profits.

jobs than do them themselves."

While inaccurate sales reporting is the focus of the consulting firm's activity, other problems are often discovered during audits, among them, inadequate accounting systems, poor merchandising techniques, surly salespeople, internal theft and dirty shops.

Center Cos.' Guidera bristles when he speaks of poor shopping center maintenance, again stressing that money spent to improve a mall's cleanliness and esthetic appeal is not merely an expense but an investment to boost future productivity.

"An entrance/exit to a mall is the shopper's first and last impression of a center," he says. "If there's trash blowing in the doorway, if there's ripped up carpeting in the common area, if there are cigarette butts strewn around on the floor, that will be the customer's lasting impression of your mall."

Despite mall managers' realizations that they need to put more money into their operations for long-term paybacks, there's one operation they wish they were spending a lot less money on: energy. Energy is by far shopping centers' greatest operating cost—a cost that's killing a number of mall owners (*see related chart*). In fact, one mall management executive reports his malls' energy costs have increased 15%-20% this year.

"You can only save so much energy expense with discipline," emphasizes Guidera. "If you're really going to trim your energy spending you have to make investments in control systems. But eventually you get to the point when you must ask yourself how much you can invest in equipment before it starts to hurt your centers' cash flows."

Brask Enterprises, the Attleboro, Mass.-based compactor rental company, has developed a computerized waste management billing system to fill the needs of mall owners who are increasingly pressured to control their operating costs. Under the Brask system, waste management bills are assessed to mall tenants according to the amount of trash they generate, instead of assessing fees on a flat, per square foot basis (*see related story*).

With the money squeeze forcing shopping center operators to control costs while trying to invest the operating dollars that they do spend on activities that will enhance productivity, who is absorbing cost increases? In many cases, cost hikes are being passed on to mall tenants. In some instances, 4% tenant fees are doubling to an 8% rate.

One retailer with a stagnating business in Detroit's Southdale mall was horrified when the center's manager told him his rent was being increased. He was given a chance to keep his spot, if he remodeled, even though the mall owner had a more productive retailer willing to move into the space at a higher rent. The tenant didn't remodel; instead he pleaded his case in the local news media. His lease was terminated when it expired.

"Shopping centers are in a much better bargaining position now than they were years ago," concludes Guidera. "They stand to benefit from leases that are expiring now.

"Whereas 20 years ago developers had to make sweetheart deals with downtown retailers to attract them to their centers, now lots of retailers want to move from downtown locations to malls."

'We have to find ways to boost tenants' cash [rent] flow'

Since many shopping center owners expect to do much of their business in existing centers during the next few years, a number of mall operations executives are spending a good deal of time visiting their old centers and reviewing the performances of tenants whose leases are about to expire.

"We're aggressively remerchandising our malls," notes one shopping center executive. "We're moving stores around, terminating the leases of poor performers, and we're constantly asking ourselves what we can do to help tenants in our centers."

Last year 43 first-floor tenants in the Minneapolis-area Rosedale shopping center were added, relocated or terminated. These moves, plus an increase in the mall's promotional activities, have netted a group of mature, first-floor tenants who are averaging sales of $213 per square foot, compared with sales that averaged $150 per square foot a

Tenant audits uncover a wide variety of problems at malls: underreported sales, poor merchandising, internal theft and faulty accounting.

year ago—a 63.4% increase.

Of course, mall managers who are trying to increase tenant sales productivity are really aiming to increase the revenues they reap from their per cent-of-sales tenant fees.

In one such case, a national men's wear retailer had a 17,000-sq.-ft. store in a mall whose management felt it was a far bigger space than the tenant needed. Management sought to recapture one-third of the tenant's space and while the retailer rejected management's initial offer, the tenant returned to the management company a year later proposing a nearly identical deal.

Mall management accepted the tenant's offer and leased out one-third of the men's wear retailer's space (5,666 sq. ft.) to another tenant. The men's wear store remained in two-thirds of its original space for the same gross rent, thus its rent per square foot had increased. But the retailer's common area charge, insurance rates, electricity costs, labor expenses and HVAC bills all decreased, while his volume improved.

Moreover, the mall's operators were pleased since they were collecting more rent per square foot and a greater amount of money on their percentage share of sales, since the retailer's sales volume had increased.

Mall operators' increasing efforts to remerchandise tenants have brought the issue of management's responsibility to tenants to the forefront of many shopping center executives' minds.

At Southdale mall in Detroit, for instance, one jeweler was producing revenues of $75 per square foot in a prime location, while the center's average tenant sales productivity level was $158 per square foot. "The guy was 65 years old," says Guidera, "and had always been a good tenant in the sense that he paid his bills on time. We offered to renew his lease in a lesser location if he'd agree to remodel his outlet there. He turned down the offer and left.

"How much responsibility did we have to him? It's a tough question to answer. In this case I don't think we had more responsibility than we assumed."

—Valerie Seckler

Where operational dollars are spent*

	Urban			Nonurban		
Category	Under 100,000 sq. ft. GLA	100,001-500,000 sq. ft. GLA	Over 500,000 sq. ft. GLA	Under 100,000 sq. ft. GLA	100,001-500,000 sq. ft. GLA	Over 500,000 sq. ft. GLA
Promotion	$0.22	$0.15	$0.28	$0.17	$0.18	$0.21
Interior maintenance	0.24	0.14	0.37	0.05	0.11	0.44
Exterior maintenance	0.18	0.13	0.47	0.33	0.22	0.44
Security personnel & monitoring	0.25	0.20	0.21	0.06	0.03	0.14
Utilities	0.40	0.26	0.26	0.28	0.22	0.59

*Expressed in terms of dollars per sq. ft. of GLA.
Source: Lebhar-Friedman Research